THE

GRANBY

MINING COMPANY LIMITED

72ND ANNUAL REPORT

1972

FRONT COVER

An aerial view of the Phoenix open-pit mine, showing the plant buildings in the foreground. It is located 20 miles from the city of Grand Forks, British Columbia, at an elevation of 4,500 feet above sea level.

BACK COVER

This picture shows the open-pit mine of Granisle Copper Limited, located on an island in Babine Lake in central British Columbia.

Directors

T. G. Ewart
W. H. Flynn
J. B. Harrison
A. H. Hauser
W. F. James
R. C. Lassiter
P. R. Matthew
G. T. Smith
R. M. Sutherland, Q.C.

Officers

W. H. Flynn	Chairman of the Board
P. R. Matthew	President
J. H. Colton	Vice-President, Secretary and Treasurer
W. G. Gourlay	Assistant Secretary
J. D. Balden	Assistant Treasurer

General Manager

J. W. Jewitt

Transfer Agents

The Canada Trust Company,
Vancouver, British Columbia.

The Canada Trust Company,
Toronto, Ontario.

Chemical Bank, New York, N.Y.

Registrars

National Trust Company, Limited,
Vancouver, British Columbia.

National Trust Company, Limited,
Toronto, Ontario.

The Chase Manhattan Bank, N.A.,
New York, N.Y.

Shares Listed

New York Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

To the Shareholders:

The 1972 fiscal year marked a period of improved financial performance and continuing expansion of production facilities for The Granby Mining Company Limited. This was accomplished despite the ongoing adverse influences of lower world copper prices, increased exchange price of the Canadian dollar, and rising production costs.

Results for the year ended September 30, 1972 showed income before extraordinary items of $1,907,215, or $1.32 per share, compared with $1,400,407, or $0.97 per share, for the comparable 12-month period last year. (See Consolidated Statement of Income.) Total value of production of copper, gold and silver for the Granisle and Phoenix mines was $15,722,445 for fiscal 1972, compared to $15,568,384 for 1971.

Expansion activities which have proceeded during the year are expected to begin increasing production by the end of the first quarter of fiscal 1973. The program to increase production capacity at the Granisle mine from 6,500 to 14,000 tons per day is now complete; however, a time period of testing and adjustment will be necessary to achieve designed production. Ore reserves at Granisle were calculated to be 85,000,000 tons at year-end, with an average copper content of 0.43%, mineable at an ore-to-waste ratio of 1 to 1.2.

The Company has decided, after reviewing the results of recent diamond drilling and engineering studies, to extend mining operations at the Phoenix mine. This will lengthen the life of the pit. Ore reserves have thus increased to 1,504,000 tons with an average copper content of .71%, mineable at an ore-to-waste ratio of 1 to 4.42. In addition, a stockpile of about 4,200,000 tons of 0.40% copper grade can be treated, dependent upon favourable copper prices, at a relatively lower profit after the ore reserves are exhausted. A new ball mill is being installed at the Phoenix mine, as part of the extension of mining operations there, which will increase rated capacity from 2,400 to 2,600 tons per day.

Value of production of the two mines increased 1% during the year, due primarily to increased output of gold and silver and to the higher market prices prevailing for these metals. Total copper production for the two mines was slightly lower than in 1971, resulting partially from reduced mining activities at Phoenix during much of the year.

Total cost of production was $9,152,023, down 1% from the previous year. This was accomplished despite overall increases in labour and material costs, as well as increased production costs at Granisle resulting from an increase in the tonnage of waste removed. Production costs at Phoenix were lower because of the reduced scale of operations which was in effect for much of the year.

In April, 1972, the terms and conditions governing the sale of substantially all of Granisle's projected production were concluded for the remaining five years of a contract with a Japanese group of companies. The new agreement covers the sale of concentrate derived from the expanded production at Granisle. It provides for concentrate containing 14,000 metric tons of copper in the first contract year ending March 31, 1973, 18,000 tons in the second year, and 16,000 tons in each of the three remaining years. Under the contract terms, Granisle will sustain higher treatment and refining charges, and deferred payments on shipments; these costs will increase from approximately 6¢ per pound of copper in the contract year ended March 31, 1972, to 9¢ in the contract year ending March 31, 1973, and an average of 11¢ per pound of copper over the four following years.

A three-year sales contract for the production of the Phoenix mine was successfully

negotiated with a Japanese consortium, effective January 1, 1972. Under the new Phoenix contract terms, higher treatment and refining charges, and deferred payments on shipments, will increase such costs from 6¢ per pound of copper in 1971 to about 11¢ over the new three-year term. As a result of the revised mining plan, it is anticipated that the Phoenix production will significantly exceed the contract quantities in 1973 and 1974. In the event that such production exceeds the contract quantities in any year of the contract terms, and should the Japanese purchasers not exercise their right to purchase the excess, Phoenix will be in competition with other copper producers for the sale of any such excess.

Concentrate sales contracts are based on the London Metal Exchange prices for copper, which are expressed in pounds sterling per dry metric ton and converted to U.S. cents per pound for shipment value calculations. Contract payments are made in U.S. dollars, which are then exchanged for Canadian dollars. The continued reduced exchange value of the pound sterling has a progressive effect upon the value of concentrate production; copper prices as expressed in U.S. currency are then lowered, and a higher exchange price for the Canadian dollar in turn reduces the value of production, and thus profitability, upon conversion from U.S. to Canadian monetary units.

Copper prices averaged 48.7¢ U.S. per

Production statistics of the Phoenix Copper Division of The Granby Mining Company Limited are as follows:—

	Year ended September 30	
	1972	1971
Tons Ore Treated	860,906	899,048
Average Tons Treated per Day	2,352	2,463
Copper Content (%)	.73	.77
Tons Waste Removed	2,808,869	4,397,170
Saleable Metal Produced:		
Copper (Lbs.)	10,942,203	11,917,880
Gold (Ounces)	16,111	13,449
Silver (Ounces)	106,098	117,842

Details of production at Granisle Copper Limited are as follows:—

	Year ended September 30	
	1972	1971
Tons Ore Treated	2,268,963	2,343,420
Average Tons Treated per Day	6,199	6,420
Copper Content (%)	.57	.55
Tons Waste Removed	2,872,558	2,162,339
Saleable Metal Produced:		
Copper (Lbs.)	22,859,826	22,049,358
Gold (Ounces)	12,864	10,329
Silver (Ounces)	120,905	98,339

pound for the year ended September 30, 1972, compared with an average of 49.9¢ for the previous year. Prices have continued to be weak since year-end — the average price for the week ended December 15, for example, was 46.1¢ U.S. per pound.

The Company is continuing actively to pursue the investigation of mineral and coal deposits. While primary exploration activities have centered in British Columbia, mineral deposits in foreign areas also are being examined.

Your Company has an interest in a property optioned from Kennco Explorations, (Canada) Limited located about 80 miles by road south of Houston, British Columbia, a station on the Canadian National Railway and Highway 16 between Prince George and Prince Rupert. The Company has the right to acquire up to a 70% ownership interest in the property subject to fulfillment of certain terms and conditions. A drilling program has been carried out which, together with previous drilling by Kennco, has indicated a zone of copper mineralization with a potential of 16,000,000 tons of .66% copper and an additional 15,000,000 tons of .35% copper. $77,000 has been expended by the Company on the property to the end of 1972. A feasibility study cannot be made until further drilling is done. Accordingly, no value can be placed upon the property at present. Drilling will be resumed as soon as weather conditions permit. Generally speaking, at this time a deposit of greater extent, higher grade of ore, or both, than previously would have been required, has to be demonstrated in order to justify the opening of any new mine because of severely lowered world copper prices, a probable world shortage in smelting capacity which could substantially impair the marketing of new copper concentrate production, and uncertainty relating to possible higher taxation in British Columbia.

On December 29, 1972, the Boards of Directors of the Company, Granisle Copper Limited, and Zapata Corporation announced that they had abandoned the previously announced amalgamation of Granby, Granisle and a subsidiary of Zapata because of the denial of certain tax rulings by the Canadian Department of National Revenue and the possible adverse Canadian tax results to the companies and their shareholders. The abandonment was made pursuant to the terms of the amalgamation agreement among the amalgamating companies which contemplated the obtaining of appropriate legal opinions and the determination that consummation of the amalgamation would not be contrary to the best interests of the companies and their shareholders. Additionally, the Company announced that its Directors had authorized the making of a cash offer to acquire the outstanding shares of Granisle not presently owned by the Company or under contract to Zapata at a price of $10.00 per share, subject to satisfaction of all applicable legal requirements. Definitive details will be provided and the offer commenced as soon as appropriate documents can be prepared.

The Annual General Meeting of the Company will be held in the Bayshore Inn, Vancouver, British Columbia, at 11:00 a.m., on Wednesday, January 31, 1973.

Management gratefully acknowledges the continuing contributions made by all employees.

On behalf of the Board,

P. R. Matthew,
President.

Vancouver, British Columbia
January 2, 1973.

To the Shareholders,
The Granby Mining Company Limited:

We have examined the consolidated balance sheet of The Granby Mining Company Limited (a British Columbia company and subsidiary of Zapata Corporation) and Subsidiaries as of September 30, 1972, and the consolidated statements of income, retained earnings and contributed surplus and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income, retained earnings and contributed surplus and source and application of funds present fairly the financial position of The Granby Mining Company Limited and Subsidiaries as of September 30, 1972, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, British Columbia
October 19, 1972 (except with respect to the matter discussed in Note 12 which is dated December 28, 1972).

CONSOLIDATED BALANCE SHEET

ASSETS

	September 30 1972	September 30 1971
Current assets (Note 3):		
Cash and short-term deposits	$ 8,734,181	$13,178,893
Investments, at market value September 30, 1971	—	1,228,440
Accounts receivable	667,033	278,410
Metals in concentrates, at estimated realizable value (Note 7)	5,139,622	4,040,911
Materials and supplies, at the lower of average cost or replacement cost	1,588,129	1,350,593
Prepaid expenses	101,733	100,884
Total current assets	16,230,698	20,178,131
Refundable deposits and sundry assets, at cost	410,184	499,736
Long-term investments, at September 30, 1971 market value (Market value September 30, 1972 $1,060,103)	1,228,440	—
Property, plant and equipment, at cost (Notes 4 and 10)	36,779,768	28,287,141
Less accumulated depreciation and depletion	10,334,783	9,289,376
Net property, plant and equipment	26,444,985	18,997,765
Deferred charges, at cost less amortization:		
Mine development and pre-production expenditure	—	59,017
Retirement plan contribution	234,513	257,392
	234,513	316,409
	$44,548,820	$39,992,041

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30	
	1972	1971
Current liabilities:		
Bank loan and overdraft (Note 7)	$ 1,845,516	$ —
Accounts payable and accrued liabilities	1,029,833	1,384,563
Income taxes payable (Note 5)	2,589,356	2,205,676
Total current liabilities	5,464,705	3,590,239
Deferred income taxes (Note 5)	2,194,000	878,000
Minority interest in subsidiary	6,528,803	6,211,411
Shareholders' equity:		
Capital stock (Note 6):		
Authorized 6,000,000 shares, par value $1.66-2/3 per share; issued and outstanding 1,444,371 shares	2,407,285	2,407,285
Contributed surplus, per accompanying statement	1,241,502	1,241,502
Retained earnings, per accompanying statement	26,712,525	25,663,604
Total shareholders' equity	30,361,312	29,312,391
	$44,548,820	$39,992,041

Commitments and contingent liability (Notes 10 and 11).

On behalf of the Board:

WILLIAM H. FLYNN, Director
P. R. MATTHEW, Director

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

	Year ended September 30 1972	Year ended September 30 1971 (unaudited)
Value of production of copper, gold and silver	$15,722,445	$15,568,384
Cost of production	9,152,023	9,282,997
Depreciation, depletion and amortization (Note 4)	1,526,153	2,576,307
Outside exploration	481,828	670,646
Administration	801,821	870,696
	11,961,825	13,400,646
Operating income	3,760,620	2,167,738
Investment and other income	684,515	904,997
Income before taxes and minority interest	4,445,135	3,072,735
Provision for income taxes (Note 5):		
Current	561,000	459,000
Deferred	1,316,000	585,000
	1,877,000	1,044,000
Income before minority interest in net income of subsidiary	2,568,135	2,028,735
Minority interest in net income of subsidiary	660,920	628,328
Income before extraordinary items	1,907,215	1,400,407
Extraordinary items (Note 8)	—	587,644
Net income for the year (Note 4)	1,907,215	1,988,051
Net income per share (Note 4):		
Net income before extraordinary items	$ 1.32	$ .97
Extraordinary items	—	.40
Net income for the year	$ 1.32	$ 1.37
Cash dividends per share in U.S. dollars	$ .60	$ 1.60
Number of shares outstanding	1,444,371	1,444,371

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS

	Year ended September 30	
	1972	1971 (unaudited)
Retained earnings:		
Balance at beginning of year	$25,663,604	$26,019,045
Add net income for the year	1,907,215	1,988,051
	27,570,819	28,007,096
Deduct cash dividends	858,294	2,343,492
Balance at end of year	$26,712,525	$25,663,604
Contributed surplus:		
Balance unchanged during the year	$ 1,241,502	$ 1,241,502

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended September 30	
	1972	1971 (unaudited)
Funds provided by:		
Operations:		
Net income for the year	$ 1,907,215	$ 1,988,051
Depreciation, depletion and amortization	1,526,153	2,576,307
Deferred income taxes	1,316,000	585,000
Other	73,081	29,979
Funds provided by operations	4,822,449	5,179,337
Deposits refunded	89,552	85,288
Disposal of property, plant and equipment	109,679	34,595
Total funds provided	5,021,680	5,299,220
Funds applied to:		
Reclassification of investments to non-current asset	1,228,440	—
Purchase of property, plant and equipment	9,074,237	2,125,394
Excess cost of investment in subsidiary, allocated to mineral claims	—	2,416,800
(Increase) or decrease in minority interest in subsidiary	(317,392)	1,048,344
Dividends paid	858,294	2,343,492
Total funds applied	10,843,579	7,934,030
Decrease in working capital	(5,821,899)	(2,634,810)
Working capital at beginning of year	16,587,892	19,222,702
Working capital at end of year	$10,765,993	$16,587,892

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 1972

1. The balance sheet as of September 30, 1971, which is presented for comparative purposes, was examined and reported on by Chartered Accountants other than Arthur Andersen & Co.

2. **Principles of consolidation:**

   The accompanying consolidated financial statements include the accounts of The Granby Mining Company Limited and Subsidiaries, Granisle Copper Limited and certain inactive companies, after elimination of all significant inter-company items and transactions. During 1971 the Company increased its share ownership of Granisle Copper Limited from 66.8% to 67.4%. The financial statements of a subsidiary, Jedway Iron Ore Limited, have not been consolidated as its mining operations have ceased and the investment therein is considered to have no value.

3. Current assets in United States dollars have been converted into Canadian dollars at the rate of exchange prevailing at the respective balance sheet dates.

4. **Property, plant and equipment:**

   Particulars of the cost of property, plant and equipment are as follows:

	September 30	
	1972	1971
Mineral claims	$ 7,415,604	$ 7,415,604
Land	78,687	78,018
Mine buildings and equipment	21,736,399	15,293,796
Mobile and other equipment	7,549,078	5,499,723
	$36,779,768	$28,287,141

The excess cost of investment in Granisle Copper Limited, over net book value at time of acquisition of $7,202,698, which includes $2,200,000 referred to in Note 5, has been allocated to mineral claims which are being amortized on the basis of the proportion of the production of ore to the estimated ore reserves of the Granisle mine.

In prior years, depreciation of the Company's Phoenix mine buildings and equipment was designed to amortize the net book value of these assets at December 31, 1969, and the cost of subsequent additions, on a straight-line basis by December 31, 1973. Following the establishment of increased ore reserves, the net book value of these assets as of September 30, 1971, is being depreciated on a straight-line basis at 17% per annum.

Depreciation of the Granisle mine buildings and equipment was based on the straight-line method at 8% of cost in prior years. In 1972, following the establishment of increased ore reserves, which increased the estimated life of the mine, the rate was adjusted to depreciate these assets on a straight-line basis over the extended life of the mine; 19 years from September 30, 1971.

Depreciation of the Granisle mobile equipment, with the exception of drills and shovels, has been calculated based on the diminishing balance basis at 30%. Depreciation on drills and shovels was calculated on a diminishing balance basis at 30% in 1971 and prior years but was changed to the straight-line basis at 10% in 1972 to more accurately reflect the physical life of these assets.

If the above changes in rates and method of depreciation had not been made in 1972, net income for the year would have been approximately $320,000 lower and net income per share would have been approximately $.22 lower.

No depreciation has been provided on plant under construction.

Amortization of pre-production expenditure has been calculated on the straight-line method at 20% and the balance of these costs were fully amortized by November 30, 1971.

5. **Income taxes:**

A District Office of the Canadian Department of National Revenue has indicated that a substantial portion of the dividends received from Granisle Copper Limited in 1969, 1970 and 1971 were subject to tax in those years. No tax had previously been provided in the accounts with respect to these dividends.

Although this liability is not admitted, the Company has retroactively reflected an amount of $2,200,000 in the consolidated balance sheet as of September 30, 1971. This amount has been charged to mineral claims and current income taxes payable have been increased accordingly.

The depreciation and amortization which will be claimed for income tax purposes will exceed the amount recorded in the accounts, and accordingly a provision has been made for the income taxes which have been deferred. The Company's subsidiary, Granisle Copper Limited, had provided depreciation and amortization during its tax-free period which did not have to be claimed for income tax purposes, and as a result, the consolidated provision for deferred income taxes for the year ended September 30, 1971, has been reduced by $310,000.

6. **Capital stock:**

Under the Company's "Restricted Stock Option Plan", dated January 13, 1960, 138,000 shares of The Granby Mining Company Limited stock were reserved for the granting of options to key employees, the purchase price per share being 10% above the market value at the date of the grant. The options are for a term of ten years from the date of the grant, and there are certain limitations on the number of shares that can be acquired in the first five years. No options were granted in 1972. An option on 2,000 shares at $38.23 U.S. per share was outstanding at September 30, 1971 and September 30, 1972. Unallocated shares under the plan totalled 54,400 shares at September 30, 1972.

7. **Bank loan:**

Granisle's concentrate is pledged as security for the Granisle bank loan and overdraft.

8. **Extraordinary items:**

Extraordinary items comprise in 1971 a gain on the sale of an investment of $465,028, a gain of $504,688 realized on the disposal of mineral claims, less an amount of $382,072 which was required to write-down the cost of marketable investments to their market value at September 30, 1971.

9. **Administration:**

Remuneration of directors and senior officers (as defined in the British Columbia Securities Act) for the twelve months ended September 30, 1972, amounted to $262,702.

10. **Commitments:**

The Company's subsidiary, Granisle Copper Limited, is expanding its mining facilities at Babine Lake, British Columbia, at an estimated cost of $10,200,000. At September 30, 1972, total expenditure incurred on this expansion was $9,800,000 and capital commitments amounted to approximately $100,000.

11. Contingent liability:

On September 3, 1971 Silver Standard Mines Ltd. (N.P.L.) commenced action in the Supreme Court of British Columbia against The Granby Mining Company Limited and Jedway Iron Ore Limited claiming the sum of $130,897.98 for interest on the sum of $670,454.50 at 6% per annum throughout the period April 1, 1968 to June 30, 1971, interest on the said sum of $130,897.98 at a rate which is undisclosed, and costs. On the recommendation of Counsel, The Granby Mining Company Limited and Jedway Iron Ore Limited are defending the said action on the ground that the obligation on the part of Jedway Iron Ore Limited terminated as of the date upon which Jedway Iron Ore Limited ceased its mining operations. In the event Silver Standard Mines Ltd. (N.P.L.) is successful in this action, then Jedway Iron Ore Limited, in addition to being liable to make payment of the amounts claimed, will have a liability which obligates it to pay to Silver Standard Mines Ltd. (N.P.L.) the sum of $10,265.00 at the end of each calendar quarter occurring after June 30, 1971 unless it pays to Silver Standard Mines Ltd. (N.P.L.) the sum of $670,454.50 (the payment of which said sum of $670,454.50 is not required to be made), and also means that if Jedway Iron Ore Limited defaults (an event which is likely to occur), The Granby Mining Company Limited, as guarantor, must assume that payment and liability. In effect, therefore, if Silver Standard Mines Ltd. (N.P.L.) is successful, there will be a continuing liability to pay to it interest at 6% per annum on $670,454.50 unless either The Granby Mining Company Limited or Jedway Iron Ore Limited elect to make payment of the said sum of $670,454.50.

No provision has been made in the accounts for the amounts that may become payable as a result of the said action commenced September 3, 1971. However, at September 30, 1972, Jedway Iron Ore Limited, which is not consolidated, had cash on hand of approximately $158,000.

On August 26, 1971, Zapata Canada Limited (Zapata Canada), a wholly-owned subsidiary of Zapata Corporation, acquired 50.75% of the outstanding shares of the Company. During 1972, the respective Boards of Directors of the Company, Granisle Copper Limited (Granisle), and Zapata Canada approved an agreement providing for the amalgamation of the companies subject to shareholder approval. Under the terms of the proposed amalgamation, each outstanding share of the Company and Granisle (other than shares owned by Zapata Canada and the Company respectively) would be exchanged for .8183 and .3583, respectively, preferred shares (an aggregate of 971,420 preferred shares) of Zapata Granby Limited, the continuing company after the amalgamation. The Company shares owned by Zapata Canada and Granisle shares owned by the Company would be cancelled upon the effectiveness of the amalgamation and no preferred shares would be issued with respect thereto. The preferred shares would be exchangeable at any time for shares of common stock of Zapata Corporation at an initial rate not greater than one share nor less than three-fourths share of common stock of Zapata Corporation for each preferred share.

Civil actions have been filed by certain minority shareholders of the Company and Granisle, naming as defendants Zapata Corporation and certain directors and/or officers of the Company and Granisle, and alleging, among other things, violations of the Securities Exchange Act of 1934 and seeking to enjoin the companies from completing the proposed amalgamation, and further, seeking compensatory and punitive damages. Messrs. Fasken & Calvin as counsel for Granby and Granisle have expressed their opinion that such actions should not result in any material loss or liability on the part of either company.

The amalgamation has since been abandoned, see also Note 12, Subsequent Events.

12. Events subsequent to date of auditors' report:

Certain requested rulings, related to Canadian tax consequences of the proposed amalgamation (see Note 11) for the constituent companies and their shareholders, were denied by the Canadian Department of National Revenue; and the respective Boards of Directors of the constituent companies and of Zapata Corporation have subsequently abandoned the amalgamation in the absence of those requested rulings, particularly in the light of numerous legal, tax, and business uncertainties introduced by the new Canadian Income Tax Act.

On December 28, 1972, the Directors of the Company authorized the making of a cash offer to acquire the outstanding shares of Granisle Copper Limited, not owned by the Company and not under contract to Zapata Corporation, at a price of $10 per share, subject to the satisfaction of all applicable legal requirements.